April 03, 2024

Linkwell Telesystems Private Limited: Ratings upgraded to [ICRA]A+(Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	85.00	85.00	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Term Loan	60.00	60.22	[ICRA]A+(Stable); upgraded from [ICRA]A(Stable)
Non-fund based limits	234.40	294.40	[ICRA]A1+; upgraded from [ICRA]A1
Unallocated Limits	120.60	60.38	[ICRA]A+(Stable)/[ICRA]A1+; upgraded from [ICRA]A (Stable)/ [ICRA]A1
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings upgrade considers Linkwell Telesystems Private Limited's (LTPL) healthy increase in revenues and strong profitability in FY2024, which is likely to continue in FY2025, driven by rental and service income from the point of sale (POS) terminals given on lease to various Government departments under the Direct Benefit Transfer (DBT) and other programmes and increasing business from the energy meter division, including smart meters. The operating income has increased by ~19% in FY2023, which is further expected to rise by ~25-30% in FY2024. ICRA notes that the operating margin remains healthy at ~41.8% in FY2023. The operating margins are likely to remain healthy in FY2024 and FY2025 as these lease rentals are expected to continue for the next two to three years. The financial risk profile of LTPL was comfortable with a low gearing of ~0.1 times as on December 31, 2023, and strong debt coverage indicators, with an interest coverage of ~30.1 times and Total Debt (TD)/OPBDITA of ~0.3 in 9M FY2024. The liquidity position continues to remain healthy with sizeable free cash and investment balances of ~Rs. 238 crore. ICRA also notes that the company is planning to enter a new vertical in construction activities and has made a sizeable investment for land acquisition in FY2024 with its own surplus funds. Any further large investment, deteriorating the overall liquidity profile, would be a credit negative.

The ratings continue to factor in LTPL's extensive track record in manufacturing energy meters and POS terminals, and a reputed customer base, which includes state power distribution companies and state government agencies. ICRA also considers the favourable demand outlook for smart energy meters, given the Government's focus on controlling aggregate technical and commercial (AT&C) losses in the power distribution segment. The demand outlook for POS terminals is also healthy with the Government's focus on delivering state benefits under the DBT programme to genuine beneficiaries directly through biometric automation. The ratings are, however, constrained by the high working capital intensity of the business owing to the long receivable cycle, given the preponderance of Government clients and higher inventory levels in FY2024 on account of large raw material stockpiles for projects in hand for execution. Further, moderate competition, especially in the energy meter segment, will keep the margins under check in that division.

The Stable outlook on the long-term rating reflects ICRA's opinion that LTPL will benefit from the confirmed lease rentals and value-added manufacturing products and its strong liquidity position.

Key rating drivers and their description

Credit strengths

Healthy revenue growth and strong operating margins – LTPL's revenues increased by ~19% in FY2023, which are further expected to rise by ~25-30% in FY2024 as well. The company's operating margins remain healthy at over ~40% since FY2021, albeit with a marginal decline in FY2024 on account of higher share of manufacturing income and lower margins from the smart meter segment. ICRA notes that LTPL started manufacturing smart meters in FY2023 and its margins are slightly lower.

Going forward, revenues as well as operating margins are expected to improve, given the confirmed outstanding lease rentals and steady orders.

Established position of Linkwell in POS terminal segment – The company started with manufacturing of voice and data products under the VISIONTEK brand. However, over the years, it has diversified into new manufacturing products, such as POS terminals, energy meters etc. Linkwell has established relationships with a reputed customer base, which includes state Discoms for energy meters and state government departments/corporations for POS terminals. ICRA notes that LTPL has presence in more than 16 Indian states as on date.

Comfortable financial risk profile – The company's financial risk profile is comfortable with a gearing of ~0.1 times as on December 31, 2023, and healthy coverage indicators with an interest coverage of ~30.1 times, TOL/TNW of ~0.3 times, and Total Debt/OPBITDA of 0.3 times as of 9M FY2024, on account of low debt levels and healthy operating margins. While ICRA notes that the company has made sizeable investment in land acquisition during FY2022-2024, which is further expected to increase, the debt metrics are expected to remain comfortable, aided by healthy cash accruals. However, any considerable large investment, significantly impacting the liquidity position, would be a credit negative.

Favourable demand for energy meters and POS terminals – The demand outlook for energy meters is favourable, with the Revamped Distribution Sector Scheme (RDSS) to help Discoms improve their operational efficiencies and financial sustainability by providing result-linked financial assistance to Discoms to strengthen the supply infrastructure based on meeting pre-qualifying criteria and achieving basic minimum benchmarks. Besides, the Government is focused on controlling AT&C losses in various states by improving usage through the Smart Meter National Programme (SMNP). The demand outlook for POS terminals is also favourable with the Government's focus on delivering state benefits under DBT/other Government programmes.

Credit challenges

Large investments in new vertical – The company is planning to enter a new vertical in construction activities. During FY2022-2024, LTPL made a sizeable investment in land acquisition for the same, along with large investment for deployment of leased assets. These investments were funded via own surplus funds. Going forward, any further large investments, impacting the liquidity position, will be a key monitorable.

High working capital intensity – The POS terminal and energy meter businesses are working capital intensive with NWC/OI of 24% in FY2023. In 9M FY2023, the working capital intensity was even higher at ~37% as the company was holding large inventory to fulfil orders in Q1 FY2025. In addition, the long receivable cycle, given the preponderance of Government clients, keeps the working capital intensity high. ICRA notes historically that the Government departments take 150-180 days for payment of bills, which is further accentuated by the weak financial profile of most of the state electricity utilities. However, the major portion of the working capital requirements is funded by internal accruals with low reliance on working capital borrowings. In addition to the fund-based limits, there is also a significant requirement of bank guarantee (BG) limits as the company is required to provide BGs of 3-10% of the order value, covering the lease tenure for POS supply and performance guarantees for energy meters supply.

Intense competition in energy meter and POS segments – The company is exposed to intense competition in the energy meter segment from other large established players. In the POS segment, LTPL has a first-mover advantage and thus, competition is moderate in that space. Further the contracts are awarded to the lowest bidder, constraining the profitability of the players.

Liquidity position: Strong

LTPL's liquidity position is strong, with healthy cash accruals, no major debt repayment obligations relative to its cash flow generation and sizeable free cash and investment balances as on date. ICRA notes that the company has plans to enter the new construction vertical, for which substantial investments have been made from its surplus funds. Despite the large investments planned, the liquidity position is likely to remain comfortable, supported by healthy cash accruals and large cash and investment balance.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company significantly increases its scale of operations and diversify product and client profiles, while maintaining its profitability and liquidity position.

Negative factors – The ratings may be downgraded if any substantial decline in its earnings and/or a stretch in the working capital cycle or any large capex/investments impacts the overall liquidity position. A specific trigger for a downgrade will be RoCE of less than 18%, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1993, LTPL manufactures voice and data products such as POS terminals, energy meters and wireless modems. The company has a range of products in the energy meter and POS segments. It is promoted by Mr. Krishna Prasad and its manufacturing facilities are located at Kushaiguda and Cherlapally, Hyderabad. The company's products and solutions are sold under the brand name, VISIONTEK, while LTPL's key clients include state Discoms and Government departments.

Key financial indicators (audited)

	FY2022	FY2023	9MFY2024
Operating income	556.5	661.1	603.2
PAT	165.4	169.6	151.5
OPBDIT/OI	48.2%	41.8%	39.9%
PAT/OI	29.7%	25.7%	25.1%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	0.3
Total debt/OPBDIT (times)	0.4	0.3	0.3
Interest coverage (times)	21.2	31.7	30.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Jan 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
					Apr 03, 2024	-	Mar 23, 2023	Apr 07, 2022	Apr 02, 2021
1	Cash Credit	Long-term	85.00	80.02	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Term Loan	Long-term	60.22	0.22	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
3	Non Fund Based Limits	Short term	294.40	283.26	[ICRA]A1+	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+

4	Unallocated Limits	Long-term /Short-term	60.38	-	**[ICRA]A+ (Stable)/ [ICRA]A1+**	-	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A (Stable)/ [ICRA]A1**	**[ICRA]A(Stable)/ [ICRA]A2+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Non Fund Based Limits	Very Simple
Unallocated Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here.]()

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	8.6%	-	85.00	[ICRA]A+(Stable)
NA	Term Loan	FY2024	8.6%	FY2028	60.22	[ICRA]A+(Stable)
NA	Non Fund Based Limits	-	-	-	294.40	[ICRA]A1+
NA	Unallocated Limits	-	-	-	60.38	[ICRA]A+(Stable)/[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis- Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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